



**Solicitation Information  
February 6, 2015**

**RFP# 7549326**

**TITLE: Health Benefits Exchange Financial and Programmatic Audit**

**Submission Deadline: Friday, February 27, 2015 at 1:30 PM (Eastern Time)**

Questions concerning this solicitation must be received by the Division of Purchases at [david.francis@purchasing.ri.gov](mailto:david.francis@purchasing.ri.gov) no later than **Friday, February 13, 2015 at 10:00 AM (ET)**. Questions should be submitted in a *Microsoft Word attachment*. Please reference the RFP# on all correspondence. Questions received, if any, will be posted on the Internet as an addendum to this solicitation. It is the responsibility of all interested parties to download this information.

**SURETY REQUIRED: No**

**BOND REQUIRED: No**

David Francis  
Interdepartmental Project Manager

Applicants must register on-line at the State Purchasing Website at [www.purchasing.ri.gov](http://www.purchasing.ri.gov)

**Note to Applicants:**

Offers received without the entire completed three-page RIVIP Generated Bidder Certification Form attached may result in disqualification.

**THIS PAGE IS NOT A BIDDER CERTIFICATION FORM**



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## **SECTION 1: INTRODUCTION**

The Rhode Island Department of Administration/Division of Purchases,, on behalf of the Rhode Island Health Benefits Exchange or HealthSource RI ("HSRI") in the Department of Administration is soliciting proposals from qualified firms to perform an independent external financial and programmatic audit (examination) to ensure HSRI is in compliance with the Centers for Medicare & Medicaid Services (CMS) regulations and standards in accordance with the terms of this Request for Proposals and the State's General Conditions of Purchase, which may be obtained at the Rhode Island Division of Purchases Home Page by Internet at [www.purchasing.ri.us](http://www.purchasing.ri.us).

The State is seeking to contract with an audit firm for an initial year with options of extending up to two additional years to be exercised at the option of the State. Services shall commence upon completion of the award, contract, and the issuance of a State Purchase Order.

The initial contract period will begin approximately March 15, 2015 for the first annual audit under the CMS regulations. Based on vendor performance and the availability of funds, contracts may be renewed for up to two additional comprehensive audits resulting in an audit opinion.

This is a Request for Proposals (RFP), not an Invitation for Bid. Responses will be evaluated on the basis of the relative merits of the proposal, in addition to price; there will be no public opening and reading of responses received by the Division of Purchases pursuant to this Request, other than to name those offerors who have submitted proposals.

## **INSTRUCTIONS AND NOTIFICATIONS TO OFFERORS:**

1. Potential vendors are advised to review all sections of this RFP carefully and to follow instructions completely, as failure to make a complete submission as described elsewhere herein may result in rejection of the proposal.
2. Alternative approaches and/or methodologies to accomplish the desired or intended results of this procurement are solicited. However, proposals which depart from or materially alter the terms, requirements, or scope of work defined by this RFP will be rejected as being non-responsive.
3. All costs associated with developing or submitting a proposal in response to this RFP, or to provide oral or written clarification of its content shall be borne by the vendor. The State assumes no responsibility for these costs.
4. Proposals are considered to be irrevocable for a period of not less than 60 days following the opening date, and may not be withdrawn, except with the express written permission of the State Purchasing Agent.
5. All pricing submitted will be considered to be firm and fixed unless otherwise indicated herein.
6. Proposals misdirected to other state locations, or which are otherwise not present in the Division at the time of opening for any cause will be determined to be late and will not be considered. For the purposes of this requirement, the official time and date shall be that of the time clock in the reception area of the Division.
7. It is intended that an award pursuant to this RFP will be made to a prime vendor, or prime vendors in the various categories, who will assume responsibility for all aspects of the work. Joint venture and cooperative proposals will not be considered. Subcontracts are permitted, provided that their use is clearly indicated in the vendor's proposal and the subcontractor(s) to be used is identified in the proposal.



8. All proposals should include the vendor's FEIN or Social Security number as evidenced by a W9, downloadable from the Division's website at [www.purchasing.ri.gov](http://www.purchasing.ri.gov).
9. The purchase of services under an award made pursuant to this RFP will be contingent on the availability of funds.
10. Vendors are advised that all materials submitted to the State for consideration in response to this RFP will be considered to be Public Records as defined in Title 38, Chapter 2 of the General Laws of Rhode Island, without exception, and will be released for inspection immediately upon request once an award has been made.
11. Interested parties are instructed to peruse the Division of Purchases website on a regular basis, as additional information relating to this solicitation may be released in the form of an addendum to this RFP.
12. Equal Employment Opportunity (G.L. 1956 § 28-5.1-1, et seq.) – § 28-5.1-1 Declaration of policy – (a) Equal opportunity and affirmative action toward its achievement is the policy of all units of Rhode Island state government, including all public and quasi-public agencies, commissions, boards and authorities, and in the classified, unclassified, and non-classified services of state employment. This policy applies to all areas where State dollars are spent, in employment, public services, grants and financial assistance, and in state licensing and regulation.
13. In accordance with Title 7, Chapter 1.2 of the General Laws of Rhode Island, no foreign corporation, a corporation without a Rhode Island business address, shall have the right to transact business in the State until it shall have procured a Certificate of Authority to do so from the Rhode Island Secretary of State (401-222-3040). This is a requirement only of the successful vendor(s).
14. The vendor should be aware of the State's Minority Business Enterprise (MBE) requirements, which address the State's goal of ten percent (10%) participation by MBE's in all State procurements. For further information visit the website [www.mbe.ri.gov](http://www.mbe.ri.gov)
15. Under HIPAA, a "business associate" is a person or entity, other than a member of the workforce of a HIPAA covered entity, who performs functions or activities on behalf of, or provides certain services to, a HIPAA covered entity that involves access by the business associate to HIPAA protected health information. A "business associate" also is a subcontractor that creates, receives, maintains, or transmits HIPAA protected health information on behalf of another business associate. The HIPAA rules generally require that HIPAA covered entities and business associates enter into contracts with their business associates to ensure that the business associates will appropriately safeguard HIPAA protected health information. Therefore, if a Contractor qualifies as a business associate, it will be required to sign a HIPAA business associate agreement.
16. In order to perform the contemplated services related to the Rhode Island Health Benefits Exchange (HealthSourceRI), the vendor hereby certifies that it is an "eligible entity," as defined by 45 C.F.R. § 155.110, in order to carry out one or more of the responsibilities of a health insurance exchange. The vendor agrees to indemnify and hold the State of Rhode Island harmless for all expenses that are deemed to be unallowable by the Federal government because it is determined that the vendor is not an "eligible entity," as defined by 45 C.F.R. § 155.110.



## **SECTION 2: BACKGROUND**

The State of Rhode Island established the Rhode Island Health Benefits Exchange or HealthSource RI ("HSRI") under Executive Order 11-09 to implement reforms in accordance with the Patient Protection and Affordable Care Act (ACA), signed into law in 2010 by President Obama. The ACA creates an opportunity to reform the health insurance marketplace in order to provide all Americans with quality, affordable health insurance coverage. HSRI is an organized State-based Marketplace ("Marketplace" or "SBM") established to help consumers and businesses buy health insurance in a way that permits easy comparison of available plan options based on price, benefits, and quality through a web portal. HSRI provides access to "Qualified Health Plans" (QHP) to individuals, families, employers and their employees. A link to the strategic plan developed by Rhode Island's Exchange Advisory Board that details the vision, mission, principles, and goals for HSRI is included in Appendix A to this RFP.

Individuals and families who are ineligible for Medicaid and without access to affordable employer sponsored coverage and have income between 133% and 400% of the federal poverty level (FPL) are eligible to purchase coverage through the Exchange and receive an advance tax credit to make the coverage more affordable. The Exchange offers coverage without tax credits for individuals over 400% FPL. Small businesses with less than 50 employees are eligible to purchase insurance for their employees through HSRI as well.

HSRI is an entity of state government, is subject to states rules including purchasing, personnel, etc., and provides residents and small businesses with a marketplace to purchase high quality, cost effective health insurance from QHPs. HSRI enrollment (as of December 31, 2014) is 28,366 individuals including 25,288 non-group and 3,078 from small group (small businesses). HSRI is the only place for qualified individuals in Rhode Island to access premium tax credits and cost sharing reductions and is the only place for employers to access the low income employee tax credit. The average monthly premiums collected by HSRI and distributed to the QHPs is approximately \$4.0M.

Early in the development process, Rhode Island created an interagency team to implement ACA reforms. This team included the Rhode Island Health Benefits Exchange (HSRI), the Office of the Health Insurance Commissioner (OHIC), the Executive Office of Health and Human Services (EOHHS), and the Department of Human Services (DHS). The interagency team developed an integrated vision for serving individuals and families through a single technology solution that supports eligibility, enrollment and, in the case of HSRI, premium payment. The technology includes eligibility, a web portal, plan browsing, selection and enrollment billing and payment, financial management and customer service. Third-party vendors were engaged to build the underlying technology and perform many of the operational processes of HSRI. Service Organization Control examinations (SOC) are contractually required over the third party service organizations and it is our intent to leverage such reports for the financial and programmatic audit of HSRI.

Additionally, as an agency of the State of Rhode Island, HSRI does not support its own general ledger but is accounted for by the State's general ledger. The activities of HSRI, with the exception of premium collection and premium distribution, are accounted for as part of the State's general fund. On July 23, 2013, the Exchange created the HealthSource RI Trust (Trust) to collect health and dental insurance premium payments from qualified employers and individuals and to pay such premiums to issuers of qualified health and dental plans offered through HSRI. This Trust is an agency fund of the State and receives a stand-alone financial statement audit on a state fiscal year basis. A third party vendor is responsible for the Premium Billing system which processes and maintains the records relating to the premiums payments received from members and transferred to QHPs.



## **SECTION 3: SCOPE OF WORK**

### **3.1 General Scope of Work**

As stated in federal statute 45 CFR 155.1200 “General program integrity and oversight requirements”, the firm selected will “perform an independent external financial and programmatic audit ... which follows generally accepted governmental auditing standards (GAGAS)”.

The “audit of State Exchange financial statements and program activities must address:

- (1) Compliance with paragraph (a)(1) of 45 CFR 155.1200;
- (2) Compliance with requirements under part 45 CFR 155;
- (3) Processes and procedures designed to prevent improper eligibility determinations and enrollment transactions; and
- (4) Identification of errors that have resulted in incorrect eligibility determinations.”

Additional scope clarification is contained in the following guidance issued by the Department of Health and Human Services Centers for Medicare & Medicaid Services and included here in Appendix B:

1. “Frequently Asked Questions about the Annual Independent External Audit of State - based Marketplaces (SBMs)” dated March 5, 2014, as updated by 3. following;
2. CMS CCHIO Audit Findings Report Example Template dated 03-04-2014;
3. “Frequently Asked Questions about the Annual Independent External Audit of State - based Marketplaces (SBMs)” dated June 18, 2014;
4. “State-based Marketplace Independent External Audit Technical Assistance” dated October 29, 2014.

Firms responding to this RFP should incorporate the guidance in these documents and the relevant Parts of 45 CFR into their proposals as well as prospectively issued applicable guidance.

### **3.2 Specific Activities/Tasks**

The proposed audit engagement should cover the fiscal year ended June 30, 2014 and fiscal years ending June 30 thereafter.

As described in the FAQ’s, the firm’s deliverables under this proposal must include audited financial statements of HSRI together with an auditor’s report and a report describing compliance and instances of non-compliance with the financial and programmatic elements of HSRI. The FAQ’s in Appendix B more fully outline deliverable requirements and should be reviewed in the development of the response to this RFP.

The audit firm must gain an understanding of HSRI in order to properly determine the work to be performed, including planning audit procedures and a process to gain an understanding of internal control sufficient to plan the audit.

It is expected that the proposal submitted will consider the use of the Service Organization Control (SOC) reports over the Exchange’s Service Organizations as they relate to the CMS Audit as well as the Trust audit report issued in October 2014.

The final reports must be issued no later than May 15, 2015 to meet the State’s requirement to submit the issued report to CMS on or before May 31, 2015. HSRI and the State’s fiscal year end is June 30.



### **Audit Standards**

1. The audit specifications shall require that the audit be conducted in accordance with generally accepted auditing standards established by the American Institute of Certified Public Accountants.
2. The audit specifications shall also require that the audit be conducted in accordance with the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.
3. The audit specifications shall also require that the audit be performed in accordance with the requirements set out in 45 CFR 155 and the related FAQ's included in Appendix B and other additional guidance as may be issued in clarification of these requirements.

### **Audit Reports**

1. Draft copies of all audit report(s) and the management letter shall be submitted to the HSRI Executive Director, the Auditor General, and the Office of Accounts and Control – Department of Administration prior to the exit conference so that there will be adequate time for review.
2. Reports to be submitted, depending on the scope of the engagement, may include:
  - (1) Reports required under CMS regulations and FAQ's defined above.
  - (2) Reports on:
    - a. basic financial statements, and/or combining financial statements, and/or financial statements of separate funds based on an audit performed in accordance with generally accepted auditing standards and Government Auditing Standards.
    - b. supplementary financial statements, schedules and information (including the State required format supplementary schedules to be submitted to the Office of Accounts and Control for component units).
    - c. internal control over financial reporting and on compliance based on an audit of financial statements performed in accordance with Government Auditing Standards.

### **Management Letter**

1. A management letter shall be prepared upon completion of the audit to the HSRI Executive Director with copies to the Director of Administration and the Auditor General.
2. The management letter should include comments, and/or recommendations beyond those included in the reports described above, on such matters as:
  - (1) policies, procedures and practices employed by the HSRI.
  - (2) immaterial weaknesses in the internal controls that are not "significant deficiencies."
  - (3) use of resources to provide a governmental service in a reasonable, judicious, economical, and efficient manner.
  - (4) compliance with state laws pertaining to the agency and with rules and regulations established by HSRI.





### **Vendor Reporting Relationship**

The successful audit firm will report to Zachary Sherman, Chief of Staff for HSRI.

### **Coordination between the Auditor of HSRI, the Auditor General and the Department of Administration**

The auditor selected by HSRI shall invite the attendance of the Auditor General and representatives from the Department of Administration at entrance, exit and other conferences between the audit firm and HSRI.

- The audit firm shall submit ALL “draft” copies of the audit report(s) and management letter before the exit conference;
- The auditor shall promptly notify the Auditor General and the Director of Administration if the auditor becomes aware of fraud, abuse, or illegal acts or indications of such acts affecting HSRI;
- The auditor shall promptly notify Auditor General and the Director of Administration if the auditor encounters any significant accounting and/or auditing problems, or any situations that would delay completion of the audit;
- Audit work papers shall be made available upon request of the Director of Administration and/or the Auditor General for their review, at the completion of the HSRI audit.

### **Due Dates for Completion of Audit and Delivery of Reports**

1. The auditing firm will be responsible to deliver a total of 25 copies of each audit report/letter to HSRI. In addition, the State of RI Director of Administration, State Controller and the Auditor General will receive two copies of each audit report/letter upon completion of the audit. Also, one electronic copy in PDF format shall be submitted to HSRI and the State Controller.
2. The audit shall be completed and final audit reports (inclusive of all audit communications) related to the financial statements shall be delivered to HSRI, the State Director of Administration, the State Controller, and the Auditor General by May 15, 2015 for the first audit and by March 15 of each year thereafter for the prior fiscal year ending June 30. Failure to comply with the submission date may result in termination of a firm’s audit engagement. Except for the final reports/letters, submission of draft audit reports and communications in electronic form is acceptable and is encouraged.





### **Payment Requirements**

Invoices must be sent no later than 30 days after the delivery of the final report to HSRI, c/o Accounts Payable, 33 Broad Street, Providence, RI 02903 and shall include a description of services rendered and billed by the auditing firm. Progress billings are allowed based on 1/3 at mid-point of engagement, 1/3 at completion of field work, 1/3 upon delivery of report.

### **Conditions Governing Subcontracting**

If the audit firm intends to use any subcontractor, the vendor must clearly identify the subcontractor in the response to the RFP and provide documentation of their skill sets and applicable experience. The audit firm retains responsibility for the completion and quality of any work assigned to subcontractors. The audit firm is expected to supervise the activities of subcontractors and employees in order to ensure quality. For all sub-contractors, the State reserves the right to review and approve of contractual documentation between audit firm and subcontractor.

For any subcontractor not specifically named in the bid, or any subcontractor to be named during the term of the contract, the State reserves the right to monitor the audit firm's procurement process, and expressly approve any subcontractors to be used.

### **Compliance with Statutory, Regulatory and Other Standards**

The audit firm must comply with all applicable State and Federal regulations and statutes.

### **Confidentiality and Protection of Public Health Information (PHI) and Related Data**

If Protected Health Information or other confidential data must be shared with the Vendor by Medicaid or the Exchange, the vendor shall be required to execute a Business Associate Agreement Data Use Agreement. Among other requirements, such agreement shall require the successful vendor to comply with 45 C.F.R 164.502(e), 164.504(e), 164.410, governing Protected Health Information ("PHI") and Business Associates under the Health Insurance Portability and Accountability Act of 1996 (P.L. 104-191), 42 U.S.C. Section 1320d, et seq., and regulations promulgated there under, and as amended from time to time, the Health Information Technology for Economic and Clinical Health Act (HITECH) and its implementing regulations, and regulations promulgated thereunder, and as amended from time to time, 45 C.F.R. 155.260 as it may be amended from time to time, and the Rhode Island Confidentiality of Health Care Information Act, R.I. General Laws, Section 5-37.3 et seq. The successful Vendor shall be required to ensure, in writing, that any agent, including a subcontractor to whom it provides Protected Health Information received from or created or received by and/or through this contract, agrees to the same restrictions and conditions that apply through the above-described Agreements with respect to such information. Any information provided by the Exchange, OHIC, Medicaid or EOHHS to the Vendor for the completion of the projects may not be sold, given or otherwise shared with outside parties.

The Vendor shall comply with all relevant Federal and State laws, regulations, and policies such as HIPAA, PHI, PII, and PCI and comply with best practices surrounding information transfer and patient confidentiality.

### **Office Space and Equipment**

Work space will be provided by HSRI.



## **SECTION 4- TECHNICAL PROPOSAL**

### **Offeror's technical qualifications**

The proposer shall, at a minimum, describe each of the following required elements:

1. The firm's status as a Certified Public Accountants holding a valid license in the State of Rhode Island or from another state having equal professional standards.
2. The status of the senior accountant in charge of the fieldwork as a Certified Public Accountant.
3. The firm's experience with governmental audit engagements, and especially with entities similar to the Exchange;
4. Firm organization and leadership team including professional staff resources;
5. Engagement staff qualifications and experience with governmental audit engagements including staff resumes/CV and their experience in performing examinations of the nature required under this proposal;
6. Understanding of work to be performed, including planned audit procedures, process to gain an understanding of internal control sufficient to plan the audit, estimated hours and other pertinent information, and
7. Understanding regarding data to be provided and completed by entity that is needed for the audit.
8. Prior experience of firm in performing examinations of the nature required under this proposal and successfully meeting time deadlines such as contained in this proposal as well as a list of relevant client references must be provided, to include client names, addresses, phone numbers, dates of service and type(s) of service(s) provided.

### **Representations**

The following representations shall be provided as part of the proposal:

1. Written representation that the audit firm is independent under the requirements of the American Institute of Certified Public Accountants including those in Interpretation 10 of Rule 101 of the AICPA Code of Professional Ethics and Government Auditing Standards;
2. A written representation that the auditor meets the continuing educational requirements of Government Auditing Standards;
3. A written representation that the auditor has an appropriate internal quality control system in place and has participated in external quality control review program as required by Government Auditing Standards. The firm will provide the Exchange, the Auditor General, and the Department of Administration with a copy of the firm's most recent external quality control review report and any subsequent reports received during the term of the contract, if awarded;
4. A written representation that the auditor is familiar with general accepted accounting principles for state and local government units and with the generally accepted auditing standards promulgated by the American Institute of the Certified Public Accountants; Government Auditing Standards issued by the Comptroller General of the United States and will conduct the audit and will report in accordance with those standards;



5. In accordance with Chapter 27 of Title 17 of the Rhode Island General Laws, the auditor has filed, or will file upon execution of this contract if required, an affidavit with the State Board of Elections concerning reportable political contributions;
6. A certification that no Rhode Island "Major State decision-maker", or spouse or dependent child of such person as defined in RIGL 42-6-1 holds either a ten percent or greater equity interest or a five thousand dollar or greater cash interest in the business.



## **SECTION 5: COST PROPOSAL**

Using "Appendix C: Cost Form", provide a sealed and separated cost proposal for fees charged for the auditing services outlined in this proposal. Using "Appendix D: Hours and Rates by Staff Level", the cost amount should be a total supported by a schedule of hourly rates and estimated time for each level of staff assigned to the audit. Indicate the lump sum amount for all auditing services as described. Do not include any travel or other reimbursable cost, or other additional compensation, except as included in the hourly rates for the fiscal year.



## **SECTION 6: EVALUATION AND SELECTION**

An evaluation committee will be formed comprised of individuals knowledgeable about auditing and financial reporting matters to evaluate the audit firms submitting proposals. To advance to the Cost Evaluation phase, the Technical Proposal must receive a minimum of 60 (85.7%) out of a maximum of 70 technical points. Any technical proposals scoring less than 60 points will not have the cost component opened and evaluated. The proposal will be dropped from further consideration.

Proposals scoring 60 technical points or higher will be evaluated for cost and assigned up to a maximum of 30 points in cost category, bringing the potential maximum score to 100 points.

The Rhode Island Health Benefits Exchange reserves the exclusive right to select the individual(s) or firm (vendor) that it deems to be in its best interest to accomplish the project as specified herein; and conversely, reserves the right not to fund any proposal(s).

Proposals will be evaluated using the following scoring weights resulting in a maximum score of 100 points:

<b>Criteria</b>	<b>Possible Points</b>
1. Firm's status as a Certified Public Accountants. 2. Status of the senior accountant.	10 Points
3. Firm's experience as auditors for government and quasi-governmental agencies especially entities similar to the Exchange. 4. Firm organization and leadership team including professional staff resources. 5. Engagement staff qualifications and experience with governmental audit engagements including staff resumes/CV and their experience in performing examinations of the nature required under this proposal.	17 Points
6. Understanding of work to be performed, including planned audit procedures, process to gain an understanding of internal control sufficient to plan the audit, estimated hours and other pertinent information. 7. Understanding regarding data to be provided and completed by entity that is needed for the audit.	18 Points
8. Prior experience of firm in performing examinations of the nature required under this proposal and successfully meeting time deadlines such as contained in this proposal as well as a list of relevant client references, to include client names, addresses, phone numbers, dates of service and type(s) of service(s) provided.	25 Points
<b>Total Possible Technical Points</b>	<b>70 Points</b>
Audit fees - See formula for points awarded for audit fees (*)	30 Points
<b>Total Possible Points</b>	<b>100 Points</b>

\* Evaluation technique – Audit fee score = (lowest bid/bid for firm being evaluated) X 30 points

**Example:** Assuming 3 bids received were: (firm A) - \$40,000, (firm B) - \$46,000, (firm C) - \$50,000

Firm A (the lowest bidder)	awarded 30 points	$\$40,000/\$40,000 \times 30 \text{ points} = 30$
Firm B	awarded 26 points	$\$40,000/\$46,000 \times 30 \text{ points} = 26$
Firm C	awarded 24 points	$\$40,000/\$50,000 \times 30 \text{ points} = 24$



An evaluation grid will be prepared summarizing the scoring by each member of the evaluation committee and the composite ranking which supports the agency's request for approval of the selected audit firm. If any firm is disqualified and therefore not evaluated, the reason for such action shall be documented.

Points will be assigned based on the offeror's clear demonstration of his/her abilities to complete the work, apply appropriate methods to complete the work, create innovative solutions and quality of past performance in similar projects.

Applicants may be required to submit additional written information or be asked to make an oral presentation before the technical review committee to clarify statements made in their proposal.

### **SECTION 7: PROPOSAL SUBMISSION**

Questions concerning this solicitation must be e-mailed to the Division of Purchases at [david.francis@purchasing.ri.gov](mailto:david.francis@purchasing.ri.gov) no later than the date and time indicated on page one of this solicitation. Please reference **RFP #** on all correspondence. Questions should be submitted in a Microsoft Word attachment. Answers to questions received, if any, will be posted on the Internet as an addendum to this solicitation. It is the responsibility of all interested parties to download this information. If technical assistance is required to download, call the Help Desk at (401) 574-9709.

Offerors are encouraged to submit written questions to the Division of Purchases. **No other contact with State parties will be permitted.** Interested offerors may submit proposals to provide the services covered by this Request on or before the date and time listed on the cover page of this solicitation. Responses received after this date and time, as registered by the official time clock in the reception area of the Division of Purchases will not be considered.

Responses **(an original plus four (4) copies)** should be mailed or hand-delivered in a sealed envelope marked "**RFP# 7549326 Health Benefits Exchange Financial and Programmatic Audit**" to:

RI Dept. of Administration  
Division of Purchases, 2nd floor  
One Capitol Hill  
Providence, RI 02908-5855

NOTE: Proposals received after the above-referenced due date and time will not be considered. Proposals misdirected to other State locations or those not presented to the Division of Purchases by the scheduled due date and time will be determined to be late and will not be considered. Proposals faxed, or emailed, to the Division of Purchases will not be considered. The official time clock is in the reception area of the Division of Purchases.



## RESPONSE CONTENTS

Responses shall include the following:

1. One completed and signed three-page R.I.V.I.P generated bidder certification cover sheet (included in the original copy only) downloaded from the RI Division of Purchases Internet home page at [www.purchasing.ri.gov](http://www.purchasing.ri.gov).
2. One completed and signed W-9 (included in the original copy only) downloaded from the RI Division of Purchases Internet home page at [www.purchasing.ri.gov](http://www.purchasing.ri.gov).
3. **A separate Technical Proposal** describing the qualifications and background of the applicant and experience with and for similar projects, and all information described earlier in this solicitation. The Technical Proposal is limited to twelve (12) pages (this excludes any appendices and, as appropriate, resumes of key staff that will provide services covered by this request).
4. **A separate, signed and sealed Cost Proposal** reflecting the hourly rate, or other fee structure, proposed to complete all of the requirements of this project.
5. In addition to the multiple hard copies of proposals required, Respondents are requested to provide their proposal in **electronic format (CD-Rom, disc, or flash drive)**. Microsoft Word / Excel OR PDF format is preferable. Only 1 electronic copy is requested and it should be placed in the proposal marked "original".

## CONCLUDING STATEMENTS

Notwithstanding the above, the State reserves the right not to award this contract or to award on the basis of cost alone, to accept or reject any or all proposals, and to award in its best interest.

Proposals found to be technically or substantially non-responsive at any point in the evaluation process will be rejected and not considered further.

The State may, at its sole option, elect to require presentation(s) by offerors clearly in consideration for award.

The State's General Conditions of Purchase contain the specific contract terms, stipulations and affirmations to be utilized for the contract awarded to the RFP. The State's General Conditions of Purchases/General Terms and Conditions can be found at the following URL:  
<https://www.purchasing.ri.gov/RIVIP/publicdocuments/ATTA.pdf>





## **Appendix A**

The R.I. Health Benefits Exchange Strategic Plan 2012-2015 can be found at:

<http://www.healthsourceri.com/wp-content/uploads/2013/07/Exchange-Strategic-Plan-revised-2.25.13.pdf>

## Appendix B

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
Center for Consumer Information and Insurance Oversight  
200 Independence Avenue SW  
Washington, DC 20201



**Date:** March 5, 2014

**Subject:** Frequently Asked Questions about the Annual Independent External Audit of State-based Marketplaces (SBMs)

Below are frequently asked questions and answers (FAQs) related to the annual independent external audit required for all approved and conditionally-approved State-based Marketplaces (SBMs) by 45 CFT Parts 144, 146, 147, et al. (Program Integrity Rule, Part II). These FAQs will provide SBMs with increased understanding of the purpose and processes associated with the auditing and reporting processes.

### Audits: Purpose and Governing Authority

#### **Q1: What is the purpose of the independent external audit?**

A1: External audits are a standard practice used by government and private and public sector organizations not only to determine the extent to which an organization adheres to managerial policies, procedures, and requirements but also to ensure accountability in all financial and programmatic activities.

#### **Q2: What authority does the Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS) have to require SBMs to provide the results of an independent external audit?**

A2: The Program Integrity Rule Part II (PI Reg), 45 CFR 155.1200(c) states,  
The State [Marketplace] must engage an independent qualified auditing entity which follows generally accepted governmental auditing standards (GAGAS) to perform an annual independent external financial and programmatic audit and must make such information available to the U.S. Department of Health and Human Services for review.

The regulation also states that the Marketplace will submit to CMS, concurrent with the annual report, the results of the audit along with proposals on how it will remedy any material weakness or significant deficiency.

#### **Q3: Will SBMs, State Partnership Marketplaces (SPMs) and/or Federally-facilitated Marketplaces (FFMs) be required to conduct an independent external audit?**

A3: All approved and conditionally-approved SBMs are required to conduct an independent external audit.

#### **Q4: Will CMS conduct its own audit in addition to the independent external audit?**

A4: While CMS has the authority to conduct an audit of individual SBMs. CMS may conduct an audit if the results of the SBM's independent external audit, which will augment CMS' annual assessment of each SBM, indicate such action is necessary.

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### Compliance with Audit Business Standards

#### **Q5: What are the compliance standards for SBMs under the independent external audit requirement?**

A5: The auditor chosen by the Marketplace must comply with 45 CFR 155.1200(c). CMS proposes that the SBM engage either a governmental or private independent qualified auditing entity that meets financial accounting standards, generally accepted accounting principles (GAAP), and follows GAGAS, to perform an annual independent external financial and programmatic audit of the SBM.

#### **Q6: May employees of the SBM conduct and complete the independent external audit?**

A6: No, the auditor must be autonomous from the Marketplace. However, the preamble to the PI Reg. states that this requirement may be satisfied through an audit by an independent state- government entity. This entity must be selected to avoid any real or potential perception of conflict of interest, including being free from personal, external, and organizational impairments to independence, or the appearance of such impairments of independence.

### Financial and Programmatic Audit Requirements

#### **Q7: What financial and programmatic requirements must be addressed by the annual independent external audit?**

A7: The independent audit must address the following areas:

1. Accurate accounting of Marketplace receipts and expenditures in accordance with GAAP.
2. Compliance with 45 CFR Part 155.
3. Processes and procedures designed to prevent improper eligibility determinations and enrollment transactions.
4. Identification of errors that resulted in incorrect eligibility determinations.

#### **Q8: What should auditors consider in their reviews to address accurate accounting of Marketplace receipts and expenditures in accordance with GAAP?**

A8: Suggested elements for auditors to consider include:

- SBM's financial statements and supporting documentation, including a sampling of receipts and expenditures to ensure accuracy.
- Internal controls and related financial and accounting policies and procedures.
- Policies and procedures related to fraud, waste, and abuse (FWA).
- Policies and procedures related to segregation of duties.
- Contracts, including applicable invoices, proposals, and payment records.

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### **Q9: What specific elements can auditors review to address compliance with 45 CFR 155, Subparts C, D, E, and K?**

A9 Auditors should review the requirements set forth in 45 CFR 155, Subparts C, D, E, and K and assess the SBM's compliance with each subpart. Requirements and suggested documentation to review for each subpart are provided below:

<b>PI Reg. Subpart</b>	<b>Suggested Elements to Review</b>
<i>Subpart C—General Functions of the Exchange</i>	<ul style="list-style-type: none"> <li>• Processes and procedures for privacy and security of navigators.</li> <li>• Processes and procedures for addressing complaints.</li> <li>• Processes and procedures for providing assistance in culturally and linguistic appropriate manner.</li> <li>• Training standards.</li> <li>• Breaches of Security or Privacy by a navigator grantee.</li> <li>• Standards designed to prevent and mitigate any conflicts of interest, financial or otherwise.</li> <li>• Confirmation that assures funding for navigator grants does not come from federal funds.</li> <li>• Privacy and Security Safeguards.</li> <li>• Call center information provided to applicants in plain language and in a manner that is accessible to individuals with disabilities and individuals with limited English proficiency.</li> </ul>
<i>Subpart D—Exchange Functions in the Individual Market: Eligibility Determinations for Exchange Participation and Insurance Affordability Programs</i>	<ul style="list-style-type: none"> <li>• Standard operating procedures (SOPs) and processes for making accurate eligibility determinations in compliance with Federal regulations (including resolution of inconsistencies).</li> <li>• Management review/internal controls associated with the prevention of improper eligibility determinations.</li> <li>• Management review/internal controls associated with the identification of incorrect eligibility determinations.</li> <li>• Management review/internal controls associated with compliance with the requirements regarding confidentiality, disclosure, maintenance, and use of information.</li> <li>• Current and fully executed agreements with other entities specifying their respective responsibilities in connection with eligibility determinations, including (if appropriate) those related to exemptions.</li> <li>• Data and records maintenance relating to eligibility verifications and determinations.</li> </ul>
<i>Subpart E—Exchange Functions in the Individual Market: Enrollment in Qualified Health Plans</i>	<ul style="list-style-type: none"> <li>• SOPs and processes for making accurate enrollments in compliance with Federal regulations.</li> <li>• Management review/internal controls associated with the prevention of improper enrollment transactions, including processes to ensure that enrollees are receiving accurate advance premium tax credits (APTCs), cost-sharing reductions (CSRs), and premiums (and for correction of any discrepancies).</li> <li>• Compliance with Centers for Medicare &amp; Medicaid Services (CMS)-issued Standard Companion Guides (e.g., ASC X12 820 and 834).</li> <li>• Processes to reconcile enrollment information with qualified health plan (QHP) issuers and CMS no less than on a monthly basis.</li> <li>• Data and records maintenance relating to enrollments.</li> </ul>
<i>Subpart K—Exchange Functions: Certification of Qualified Health Plans</i>	<ul style="list-style-type: none"> <li>• Process for recertification of QHPs.</li> <li>• Process for decertification of QHPs.</li> <li>• Policies and procedures for certification of health plans.</li> </ul>

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### **Q10: What can auditors review to address processes and procedures to prevent improper eligibility determinations and enrollment transactions?**

A10: Suggested elements to review include:

- Eligibility and enrollment policies and procedures.
- Internal and system controls.
- Results of internal auditing and monitoring of the eligibility and enrollment processes.

### **Q11: What can auditors review to address identification of errors that resulted in incorrect eligibility determinations?**

A11: Suggested elements to review include:

- Eligibility policies and procedures.
- Results of internal auditing and monitoring of the eligibility process.
- Error logs and corrective actions.

### **Small Business Health Options Program (SHOP) Standards**

### **Q12: What can auditors review to ensure a SHOP is compliant with the program's standards?**

A12: SHOPS must carry out all functions of an Exchange described in subparts C, E, K, and H (with a few exceptions) as well as enrollment and eligibility standards described in 45 C.F.R. 155.710, 155.715, 155.720, 155.725, 155.730, and facilitate the special enrollment periods described in 156.285(b)(2). The table below outlines the guidelines that must be adhered to by a SHOP.

<b>SHOP Guideline</b>	<b>Description</b>
<i>Eligibility Standards</i>	The SHOP is a small employer, or an employer with no less than one employee and no more than 100 employees, unless a State elects to limit enrollment in the small group market to employers with no more than 50 employees until 1/1/16. The SHOP must employ at least one common law employee. An employee would not include a sole proprietor or the sole proprietor's spouse.
<i>Eligibility Determination for SHOP</i>	The SHOP may use the information attested to by the employer or the employee on the application but must, at a minimum verify that an individual attempting to enter the SHOP as an employee is listed on the qualified employer's roster of employees to whom coverage is offered.
<i>Enrollment of Employees into QHPs under SHOP</i>	The SHOP must report to the Internal Revenue Service (IRS) employer participation and employee enrollment information for tax administration purposes.
<i>Enrollment Periods under SHOP</i>	Open enrollment period will be at least 30 days. Employer election period will be at least 30 days. SHOP must establish coverage effective dates consistent with 45 C.F.R. § 155.720.
<i>Application Standard for SHOP</i>	The SHOP must adhere to the application requirements outlined in 45 C.F.R. § 155.730. The SHOP must use a single application to determine employer eligibility and to collect information necessary for purchasing coverage such as employee name and address of employer's locations; number of employees; employer identification number; and list of qualified employees and their taxpayer identification number. The SHOP must use a single application for eligibility

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SHOP Guideline	Description
	determination, QHP selection and enrollment for qualified employees and their dependents. The SHOP may use the model single employer application and model single employee application provided by HHS. The SHOP may also use an alternative application if the application is approved by HHS and meets certain requirements.
<i>Special Enrollment Periods</i>	Special enrollment periods in the SHOP are based on whether an individual becomes a newly eligible qualified employee. Enrollment periods will be available to those who become qualified employees outside of the initial or annual open enrollment period.

### Q13: What should be the SHOP policy on non-payment for coverage?

A13: Payment is due on the first of the month. If payment is not received within the 31-day grace period, the SHOP may terminate coverage. To be reinstated, the employer must pay prior premiums owed for coverage during the grace period and pay the premiums for the next month's coverage.

### Technology, Privacy and Security Elements

FAQs related to this topic will be forthcoming.

### Audit Findings Report

### Q14: Based on the financial and programmatic requirements, what type of information should be included in the audit findings report?

A14: The table below outlines suggested topics to include in the audit findings report, as stipulated by CMS and/or GAGAS. This list is not exhaustive, but provides examples of potential content that should be considered during the independent external audit.

Audit Report Topic	Report Content Examples
<i>Executive Summary</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Purpose of the audit.</li><li>– Scope of the audit, including the program areas and time period of the review.</li><li>– Statement that the auditor has complied with GAGAS audit standards.</li><li>– Methodology used to conduct the audit to include any quantitative and qualitative tests performed by the auditor.</li><li>– Nature of confidential or sensitive information that may have been omitted.</li><li>– General conclusions reached regarding SBM compliance with the financial and programmatic requirements, including compliance with GAAP.</li></ul></li></ul>
<i>Audit Findings</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Specific findings from both the financial and programmatic audits, including a summary of compliance or non-compliance with all requirements.</li><li>– Material weaknesses, significant deficiencies, and violations found.</li></ul></li></ul>
<i>Recommendations</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include recommended improvements to operating procedures to comply with programmatic and financial requirements. Recommendations should be detailed and benefits of implementing the recommendation.</li></ul>

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Audit Report Topic	Report Content Examples
<i>Conclusion</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should confirm the firm has reviewed relevant document documentation in compliance with CMS requirements, GAGAS, and GAAP.</li></ul>
<i>Intended Corrective Action Plan</i>	<ul style="list-style-type: none"><li>• The <b>SBM</b> should provide detailed corrective action plans on how the Marketplace will address and correct any material weaknesses and significant deficiencies. Details should include rationale and expected completion timeline.</li></ul>

### Q15: What format should be used to present the audit findings to CMS?

A15: The audit findings report should be completed in Microsoft Word and provided to CMS as a PDF document. CMS has provided an example template that will comply with the formatting requirements. The example template is available [here](#).

### Q16: Is there any additional information that should be obtained from the auditor, in addition to the contents of the audit findings report?

A16: As a requirement of the State-based Marketplace Annual Reporting Tool (SMART), the SBM is required to obtain a signed statement from the auditor with the following information: “An independent, external auditor attests that the Marketplace has demonstrated accurate accounting of all activities, receipts, and expenditures to CMS and prepared an accurate annual financial statement in accordance with GAAP.” This statement must be uploaded as an attachment to the SMART by April 1 of each year.

### Audit Findings Report Submission and Timing

#### Q17: When must the SBM submit the results of the independent external audit to CMS?

A17: Beginning in 2015, the final audit findings report must be completed by April 1 of each year.

#### Q18: How should an SBM submit the results of the annual external audit to CMS?

A18: A PDF version of the audit findings report should be submitted as part of the SMART on SERVIS.

### Audit Findings Maintenance of Records

#### Q19: Is there a requirement to retain records of the independent external audit?

A19: Yes. The SBM, its contractors, subcontractors, and agents, as required in the PI Reg., must retain documents reviewed and completed based on the independent external audit for 10 years. Documents include records (whether paper, electronic, or other media) and other evidence of accounting procedures and practices of the SBM. These records must be sufficient and appropriate to respond to any periodic auditing, inspection or investigation of the SBM’s financial records or to enable CMS or its designee to appropriately evaluate the SBM’s compliance with Federal requirements.



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### Available Audit Resources

#### **Q20: What guidance and resources are available to SBMs to perform the independent external audit and complete the audit findings report?**

A20: The table below provides agency-specific and government-wide resources available to the SBM and the auditor as guidance in performing the independent external audit and completing the audit findings report.

Resource	Use	Location
<i>Generally Accepted Governmental Auditing Standards (GAGAS)</i>	<ul style="list-style-type: none"><li>• Framework for conducting high-quality audits with competence, integrity, objectivity, and independence.</li><li>• For use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.</li></ul>	<a href="http://www.gao.gov/yellowbook/overview">http://www.gao.gov/yellowbook/overview</a>
<i>Generally Accepted Accounting Principles (GAAP)</i>	<ul style="list-style-type: none"><li>• Authoritative source of GAAP developed by the Federal Accounting Standards Advisory Board (FASAB) for Federal entities.</li><li>• Pertains to financial statements or other financial data.</li></ul>	<a href="http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/">http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/</a>
<i>OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations).</i>	<ul style="list-style-type: none"><li>• Standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments, and nonprofit organizations expending Federal awards.</li></ul>	<a href="http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf">http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf</a>
<i>Audit Findings Report Example Template</i>	<ul style="list-style-type: none"><li>• Requirements that must be fulfilled by auditor and a sample format for submission.</li><li>• Sample format for the intended correction action plan that must be submitted to CMS by the SBM.</li></ul>	<a href="https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230">https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230</a>

03/04/2014  
CCIIO/SEG

[INSERT COMPANY  
LOGO OF EXTERNAL  
AUDITING FIRM  
CHOSEN HERE]

**INDEPENDENT EXTERNAL AUDIT:  
[YYYY] AUDIT FINDINGS REPORT  
[ENTER STATE HERE]  
[ENTER NAME OF STATE-BASED MARKETPLACE HERE]**



## **INDEPENDENT EXTERNAL AUDIT:** **[XXXX] FINDINGS REPORT**

The Program Integrity Rule Part II (PI Reg II) authorizes the U.S. Department of Health and Human Services (HHS) to require every State-based Marketplace (SBM) to perform an annual financial and programmatic independent external audit and provide an intended corrective action plan, if necessary, based on the results of the audit. The Audit Findings Report (Report) must be *submitted to the Centers for Medicare & Medicaid Services (CMS) by April 1* of each year. A PDF version of the Report should be *uploaded to the State-based Marketplace Annual Reporting Tool (SMART) via SERVIS*.

This template only serves as a guide; it is therefore not exhaustive of the information that may be required in the submitted Report.

TO: CCHIO STATE EXCHANGE GROUP

FROM: [ENTER NAME OF AUDITING FIRM CHOSEN BY SBM HERE]

DATE: [MONTH] [DD], [YYYY]

SUBJECT: AUDIT FINDINGS REPORT FOR [ENTER NAME OF STATE HERE]

### **I. EXECUTIVE SUMMARY**

#### **PURPOSE**

Describe the purpose and scope of the independent external audit. This statement should describe why the SBM has asked the auditing firm to conduct the audit. Information that should be provided in this section includes:

- Purpose statement
- Name of State and SBM
- Name of auditing firm
- Auditing firm's responsibilities during the audit

A sample purpose statement has been provided below as a reference.

"The purpose of this independent external audit is to ensure that [ENTER NAME OF STATE HERE] is in compliance with the financial and programmatic requirements set forth by the Centers for Medicare & Medicaid Services (CMS)."

#### **SCOPE**

Describe the breadth of information reviewed during the audit that formed the basis of the auditing firm's Key Findings. Information that should be provided in this section includes:

- List of applicable financial documents (e.g., income statements) reviewed to prepare financial statement
- Programmatic requirements addressed
- Oversight and monitoring policies and procedures

**METHODOLOGY**

Describe the process and methodology used by the auditing firm to perform the independent external audit. The process and methodology may include business standards, interviews conducted, and sampling methodology used to validate data and provide the audit's Key Findings. Information that should be provided in this section includes:

- Background and expertise of auditing firm in financial and programmatic independent external audits
- Financial and auditing standards that were followed by the SBM and the auditing firm:
  - Generally Accepted Governmental Auditing Standards (GAGAS)
    - This should include an official auditor's statement that the auditing firm complies with GAGAS
  - Generally Accepted Accounting Principles (GAAP)
    - This should include a statement as to whether the SBM's accounting practices and financial statements comply with GAAP
- Interviews with key SBM officials and/or staff to understand management and staff responsibilities and processes
- Sampling methodology to validate documents and statistics collected to perform the audit, and ultimately form a risk assessment and suggested corrective actions, such as:
  - Quantitative samples (e.g., number of people enrolled, number of people improperly enrolled)
  - Qualitative samples (e.g., policies and procedures on management, governance, conflicts of interest, staff training requirements)

**CONFIDENTIAL INFORMATION OMITTED**

If applicable, and per GAGAS requirements, describe the nature of any confidential or sensitive information that may have been omitted from the audit process. This may include, but not be limited to, any Personal Health Information, Personally Identifiable Information or that deemed confidential under state law. If this section does not apply, enter "N/A."

**II. AUDIT FINDINGS****KEY FINDINGS**

Based on the documentation reviewed, interviews conducted, and sampling methodology, provide key findings that require SBM actions or change/adjustment in SBM practices, policies, and procedures. While the auditing firm may highlight processes that the SBM does well, findings should include references to any material weakness and/or significant deficiencies. Findings should include the condition, criteria for judgment, root cause of the issue, and effect on the SBM's operations and/or beneficiaries.

**AUDITOR'S OPINION**

An independent external auditor who reviews an SBM's records and helps produce the financial statements provides the auditor's opinion. This opinion expresses the auditor's assessment of the procedures and records used to produce the statements, and the auditor's judgment of whether or not the financial statements present an accurate picture of the SBM's financial condition. Definitions of

the types of auditor's opinions (see below) that can be provided are outlined in Appendix A of this document.

Based on the Key Findings above, it is [ENTER NAME OF AUDIT FIRM] opinion that the accounting practices and financial statements reviewed during the [YYYY] independent external audit are:

☐ QUALIFIED      ☐ UNQUALIFIED      ☐ ADVERSE      ☐ DISCLAIMER

#### **ADDITIONAL COMMENTS**

The auditor may provide additional justification for the auditor's opinion identified above.

### **III. RECOMMENDATIONS**

The auditor should provide a numerical list of recommendations that would help improve the SBM's financial and programmatic procedures. A sample format has been included below as a reference.

#### **1. One Complete Sentence Summarizing the Recommendation**

Provide a detailed justification to help the SBM understand why the recommendation has been included and the benefits of implementing the recommendation.

The PI Reg II also requires the SBM to complete an intended corrective action plan, if needed, based on the Key Findings and recommendations included in the Report. Additional guidance to fulfill this requirement and a sample format for the intended corrective action plan can be found in Appendix B of this document.

### **IV. CONCLUSION**

We confirm to the best of our knowledge that the information included in this Audit Findings Report is accurate and based on a thorough review of the documentation required for this report.

**SIGNATURE OF AUDIT FIRM:**

[SIGNATURE OF LEAD AUDITOR]

**COMPLETION DATE OF AUDIT FINDINGS REPORT:**

[MM/DD/YYYY]

## **APPENDIX A: TYPES OF AUDITOR'S OPINIONS**

An audit opinion is expressed on audited financial statements. An auditor must state in his or her opinion that generally accepted accounting principles (GAAP) have been followed and that they have been applied on a basis consistent with that used the previous year. The four common types of auditor's opinions as defined by the American Institute of Certified Public Accountants (Reports on Audited Financial Statements, AU §508.10) are outlined below.

Unqualified opinion: States that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

Explanatory language added to the auditor's standard report: Certain circumstances, while not affecting the auditor's unqualified opinion on the financial statements, may require that the auditor add an explanatory paragraph (or other explanatory language) to his or her report.

Qualified opinion: States that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

Adverse opinion: States that the financial statements do not present fairly the financial position, results of operations, or cash flows of the entity in conformity with generally accepted accounting principles.

Disclaimer of opinion: States that the auditor does not express an opinion on the financial statements.

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## **APPENDIX B: INTENDED CORRECTIVE ACTION PLAN**

The Program Integrity Rule Part II (PI Reg II) requires that the State-based Marketplace (SBM) complete an intended corrective action plan based on the Key Findings and recommendations including in the Audit Findings Report (Report). This plan must be submitted to the Centers for Medicare & Medicaid Services (CMS) within the defined days of the Auditing Findings Report's submission to CMS via the defined submission method.

TO: CCHIO STATE EXCHANGES GROUP

FROM: [ENTER NAME OF STATE-BASED MARKETPLACE HERE]

DATE: [MONTH] [DD], [YYYY]

SUBJECT: INTENDED CORRECTIVE ACTION PLAN FOR [ENTER NAME OF STATE HERE]

### **I. RESPONSE TO THE AUDIT REPORT FINDINGS**

The SBM should provide a response to the Report completed by the independent external auditing firm. The response should outline whether the SBM agrees with the overall score and Key Findings and recommendations, as well as summarize how the SBM plans to address any weaknesses in current policies and procedures, if applicable.

### **II. INTENDED CORRECTIVE ACTION PLAN**

#### **KEY FINDING/RECOMMENDATION ADDRESSED**

Duplicate the listing of recommendations from the Report. For each recommendation noted by the auditing entity, the SBM should address how it will implement a corrective action to address the finding.

#### **CORRECTIVE ACTIONS**

The SBM should provide a detailed description on how the Marketplace will remedy each finding or why it will not address a specific recommendation. The SBM should include a date by which each corrective action is expected to be implemented and a point of contact responsible for this action.

### **III. CONCLUSION**

We confirm to the best of our knowledge that the information included in this Intended Corrective Action Plan is accurate and based on a thorough review of the Key Findings and Recommendations stated in the Audit Findings Report, which is in compliance with the Marketplace's procedures.

SIGNATURE OF SBM EXECUTIVE DIRECTOR/CEO: [SIGNATURE OF DIRECTOR/CEO]

COMPLETION DATE OF CORRECTIVE ACTION PLAN: [MM/DD/YYYY]



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**Date:** June 18, 2014

**Subject:** Frequently Asked Questions about the Annual Independent External Audit of State-based Marketplaces (SBMs)

Below are frequently asked questions and answers (FAQs) related to the annual independent external audit required for all approved and conditionally-approved State-based Marketplaces (SBMs) by 45 CFT Parts 144, 146, 147, et al. (Program Integrity Rule, Part II). These FAQs will provide SBMs with increased understanding of the purpose and processes associated with the auditing and reporting processes.

### **Audits: Purpose and Governing Authority**

#### **Q1: What is the purpose of the independent external audit?**

A1: External audits are a standard practice used by government and private and public sector organizations not only to determine the extent to which an organization adheres to managerial policies, procedures, and requirements but also to ensure accountability in all financial and programmatic activities.

#### **Q2: What authority does the Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS) have to require SBMs to provide the results of an independent external audit?**

A2: The Program Integrity Rule Part II (PI Reg), 45 CFR 155.1200(c) states,

The State [Marketplace] must engage an independent qualified auditing entity which follows generally accepted governmental auditing standards (GAGAS) to perform an annual independent external financial and programmatic audit and must make such information available to the U.S. Department of Health and Human Services for review.

The regulation also states that the Marketplace will submit to CMS, concurrent with the annual report, the results of the audit along with proposals on how it will remedy any material weakness or significant deficiency.

#### **Q3: Will SBMs, State Partnership Marketplaces (SPMs) and/or Federally-facilitated Marketplaces (FFMs) be required to conduct an independent external audit?**

A3: All approved and conditionally-approved SBMs are required to conduct an independent external audit.

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### **Q4: Will CMS conduct its own audit of the SBM in addition to the independent external audit?**

A4: CMS maintains the authority and option to conduct its own audit of the SBM if the results of the SBM's independent external audit indicate such action is necessary.

### **Compliance with Audit Business Standards**

### **Q5: What are the compliance standards for SBMs under the independent external audit requirement?**

A5: The auditor chosen by the Marketplace must comply with 45 CFR 155.1200(c). CMS proposes that the SBM engage either a governmental or private independent qualified auditing entity that meets financial accounting standards, generally accepted accounting principles (GAAP), and follows GAGAS, to perform an annual independent external financial and programmatic audit of the SBM.

### **Q6: May employees of the SBM conduct and complete the independent external audit?**

A6: No, the auditor must be autonomous from the Marketplace. However, the preamble to the Program Integrity Regulation states that this requirement may be satisfied through an audit by an independent state-government entity. This entity must be selected to avoid any real or potential perception of conflict of interest, including being free from personal, external, and organizational impairments to independence, or the appearance of such impairments of independence.

### **Financial and Programmatic Audit Requirements**

### **Q7: What financial and programmatic requirements must be addressed by the annual independent external audit?**

A7: The independent audit must address the following areas:

1. Accurate accounting of Marketplace receipts and expenditures in accordance with GAAP.
2. Compliance with 45 CFR Part 155.
3. Processes and procedures designed to prevent improper eligibility determinations and enrollment transactions.
4. Identification of errors that resulted in incorrect eligibility determinations.

### **Q8: What should auditors consider in their reviews to address accurate accounting of Marketplace receipts and expenditures in accordance with GAAP?**

A8: Suggested elements for auditors to consider include:

- SBM's financial statements and supporting documentation, including a sampling of receipts and expenditures to ensure accuracy.

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- Internal controls and related financial and accounting policies and procedures.
- Policies and procedures related to fraud, waste, and abuse (FWA).
- Policies and procedures related to segregation of duties.
- Contracts, including applicable invoices, proposals, and payment records.

### **Q9: What specific elements can auditors review to address compliance with 45 CFR 155, Subparts C, D, E, and K?**

A9 Auditors should review the requirements set forth in 45 CFR 155, Subparts C, D, E, and K and assess the SBM's compliance with each subpart. Requirements and suggested documentation to review for each subpart are provided below:

PI Reg. Subpart	Suggested Elements to Review
<i>Subpart C—General Functions of the Exchange</i>	<ul style="list-style-type: none"><li>• Processes and procedures for privacy and security of navigators.</li><li>• Processes and procedures for addressing complaints.</li><li>• Processes and procedures for providing assistance in culturally and linguistic appropriate manner.</li><li>• Training standards.</li><li>• Breaches of Security or Privacy by a navigator grantee.</li><li>• Standards designed to prevent and mitigate any conflicts of interest, financial or otherwise.</li><li>• Confirmation that assures funding for navigator grants does not come from federal funds.</li><li>• Privacy and Security Safeguards.</li><li>• Call center information provided to applicants in plain language and in a manner that is accessible to individuals with disabilities and individuals with limited English proficiency.</li></ul>

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PI Reg. Subpart	Suggested Elements to Review
<i>Subpart D—Exchange Functions in the Individual Market: Eligibility Determinations for Exchange Participation and Insurance Affordability Programs</i>	<ul style="list-style-type: none"> <li>• Standard operating procedures (SOPs) and processes for making accurate eligibility determinations in compliance with Federal regulations (including resolution of inconsistencies).</li> <li>• Management review/internal controls associated with the prevention of improper eligibility determinations.</li> <li>• Management review/internal controls associated with the identification of incorrect eligibility determinations.</li> <li>• Management review/internal controls associated with compliance with the requirements regarding confidentiality, disclosure, maintenance, and use of information.</li> <li>• Current and fully executed agreements with other entities specifying their respective responsibilities in connection with eligibility determinations, including (if appropriate) those related to exemptions.</li> <li>• Data and records maintenance relating to eligibility verifications and determinations.</li> </ul>
<i>Subpart E—Exchange Functions in the Individual Market: Enrollment in Qualified Health Plans</i>	<ul style="list-style-type: none"> <li>• SOPs and processes for making accurate enrollments in compliance with Federal regulations.</li> <li>• Management review/internal controls associated with the prevention of improper enrollment transactions, including processes to ensure that enrollees are receiving accurate advance premium tax credits (APTCs), cost-sharing reductions (CSRs), and premiums (and for correction of any discrepancies).</li> <li>• Compliance with Centers for Medicaid &amp; Medicare Services (CMS)-issued Standard Companion Guides (e.g., ASC X12 820 and 834).</li> <li>• Processes to reconcile enrollment information with qualified health plan (QHP) issuers and CMS no less than on a monthly basis.</li> <li>• Data and records maintenance relating to enrollments.</li> </ul>
<i>Subpart K—Exchange Functions: Certification of Qualified Health Plans</i>	<ul style="list-style-type: none"> <li>• Process for recertification of QHPs.</li> <li>• Process for decertification of QHPs.</li> <li>• Policies and procedures for certification of health plans.</li> </ul>

### **Q10: What can auditors review to address processes and procedures to prevent improper eligibility determinations and enrollment transactions?**

A10: Suggested elements to review include:

- Eligibility and enrollment policies and procedures.
- Internal and system controls.
- Results of internal auditing and monitoring of the eligibility and enrollment processes.

### **Q11: What can auditors review to address identification of errors that resulted in incorrect eligibility determinations?**

A11: Suggested elements to review include:

- Eligibility policies and procedures.
- Results of internal auditing and monitoring of the eligibility process.
- Error logs and corrective actions.

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### Technology, Privacy, and Security Elements

#### **Q12: What technology, privacy, and security controls can auditors review to ensure compliance with the regulatory requirements in 45 CFR Part 155?**

A12: To address the technology, privacy and security programmatic requirements of the Independent External Audit, SBMs will need to coordinate with their auditors to establish and implement an annual audit process. The assessment procedures must take into consideration the regulatory requirements and the associated legal agreements that states signed with non-Marketplace entities and with CMS, and ultimately provide the results to HHS.

CMS expects states to establish a program that allows reuse of audits, security reviews, privacy assessments, and other relevant reviews, based on the controls documented in the system security plan (SSP), to demonstrate a successful and ongoing oversight and monitoring (O&M) program. CMS also expects states to submit the required artifacts to adhere to the Minimum Acceptable Risk Standards for Exchanges (MARS-E) standards (e.g., system security plan, security assessment report, plan of action and milestones, privacy impact assessment).

As the state compliance program matures, CMS expects the ongoing external audits to address the artifacts review that CMS currently performs. Eventually, CMS may elect to rely on the external audit report(s) rather than request separate artifact submissions.

#### **Q13: What are the guiding principles that should be in place to shape privacy and security standards, policies, and supporting procedures?**

A13: The table below outlines the principles that must be adhered to when implementing privacy and security standards, as stipulated by 45 CFR 155.260(a)(3).

Principle	Description
<i>Individual Access</i>	Individuals should be provided with a simple and timely means to access and obtain their personally identifiable information (PII) in a readable form and format.
<i>Correction</i>	Individuals should be provided with a timely means to dispute the accuracy or integrity of their PII and to have erroneous information corrected or to have a dispute documented if their requests are denied.
<i>Openness and Transparency</i>	There should be openness and transparency about policies, procedures, and technologies that directly affect individuals and/or their PII.
<i>Individual Choice</i>	Individuals should be provided a reasonable opportunity and capability to make informed decisions about the collection, use, and disclosure of their PII.
<i>Collection, Use, and Disclosure</i>	PII should be created, collected, used, and/or disclosed only to the extent necessary to accomplish a specified purpose(s) and never to discriminate inappropriately.

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Principle	Description
<i>Data Quality and Integrity</i>	Persons and entities should take reasonable steps to ensure that PII is complete, accurate, and up-to-date to the extent necessary for the person's or entity's intended purposes and has not been altered or destroyed in an unauthorized manner.
<i>Safeguards</i>	PII should be protected with reasonable operational, administrative, technical, and physical safeguards to ensure its confidentiality, integrity, and availability and to prevent unauthorized or inappropriate access, use, or disclosure.
<i>Accountability</i>	These principles should be implemented, and adherence assured through appropriate monitoring and other means and methods should be in place to report and mitigate non-adherence and breaches.

### **Q14: What type of policies and procedures should be in place to report and respond to an identified privacy or security incident?**

A14: Per the MARS-E, each SBM is required to develop and document a set of policies and procedures that serve as the foundation for its incident response program. These policies and procedures must be a written document, approved and signed by management, which addresses the purpose, scope, roles, and responsibilities within the program. Additionally, these documents need to be detailed and ensure consistency and effectiveness based on the unique requirements of the state, which is determined by its size and structure. These policies must be supported by an incident response plan that includes detailed, state-specific procedures for management and staff to follow. Furthermore, as part of its annual assessment process, each state must ensure that management and staff are aware of their roles and responsibilities, and are trained appropriately on a regular basis.

SBMs must report all suspected or confirmed incidents, whether or not they contain Personally Identifiable Information (PII), within one hour of discovery. SBMs must follow the requirements of their legal agreements with CMS. SBMs that connect to the Federal Data Services Hub (FDSH) must sign the Interconnection Security Agreement (ISA), the Computer Matching Agreement (CMA), and the Information Exchange Agreement (IEA). Each written legal agreement has incident reporting requirements that, when combined, require the SBM to report all incidents to CMS. These requirements apply to all system environments (i.e., production, pre-production, test, development). After the initial reporting of an incident, CMS and SBM personnel will continue to work together for the duration of the incident.

Any suspected loss, breach, or misuse of Federal Tax Information (FTI) must be reported within 24 hours to the IRS Office of Safeguards by email to [safeguardreports@irs.gov](mailto:safeguardreports@irs.gov), and by telephone to the Treasury Inspector General for Tax Administration (TIGTA) at 1 (800) 589-3718. An SBM should not wait until its own internal investigation has been conducted to report an incident to CMS, TIGTA, and the IRS.



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### **Q15: If the SBM is sharing data with a third party on a regular basis, what type of agreements should be in place to adhere to privacy and security standards?**

A15: The SBM should ensure:

- All agreements bind the other party to meet the requirements specified within 45 C.F.R. 155.260(a)(3) including the ISA, CMA and IEA.
- When providing PII to agencies administering Medicaid or Children's Health Insurance Program (CHIP) programs, the matching and/or sharing arrangements that facilitate the movement of eligibility information must meet the requirements in 45 C.F.R. 155.260, Sections 1413(c)(1) and (c)(2) of the Affordable Care Act (ACA), and Section 1942 of the Social Security Act.
- When interacting with a non-Marketplace entity other than Medicaid/CHIP agencies, such as a Navigator or agent/broker, privacy language must be included within the appropriate agreement required under 45 C.F.R. 155.260(b).

### **Small Business Health Options Program (SHOP) Standards**

### **Q16: What can auditors review to ensure a SHOP is compliant with the program's standards?**

A16: SHOPs must carry out all functions of an Exchange described in subparts C, E, K, and H (with a few exceptions) as well as enrollment and eligibility standards described in 45 C.F.R. 155.710, 155.715, 155.720, 155.725, 155.730, and facilitate the special enrollment periods described in 156.285(b)(2). The table below outlines the guidelines that must be adhered to by a SHOP.

<b>SHOP Guideline</b>	<b>Description</b>
<i>Eligibility Standards</i>	The SHOP is a small employer, or an employer with no less than one employee and no more than 100 employees, unless a State elects to limit enrollment in the small group market to employers with no more than 50 employees until 1/1/16. The SHOP must employ at least one common law employee. An employee would not include a sole proprietor or the sole proprietor's spouse.
<i>Eligibility Determination for SHOP</i>	The SHOP may use the information attested to by the employer or the employee on the application but must, at a minimum verify that an individual attempting to enter the SHOP as an employee is listed on the qualified employer's roster of employees to whom coverage is offered.
<i>Enrollment of Employees into QHPs under SHOP</i>	The SHOP must report to the Internal Revenue Service (IRS) employer participation and employee enrollment information for tax administration purposes.
<i>Enrollment Periods under SHOP</i>	Open enrollment period will be at least 30 days. Employer election period will be at least 30 days. SHOP must establish coverage effective dates consistent with 45 C.F.R. § 155.720.



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SHOP Guideline	Description
<i>Application Standard for SHOP</i>	The SHOP must adhere to the application requirements outlined in 45 C.F.R. § 155.730. The SHOP must use a single application to determine employer eligibility and to collect information necessary for purchasing coverage such as employee name and address of employer's locations; number of employees; employer identification number; and list of qualified employees and their taxpayer identification number. The SHOP must use a single application for eligibility determination, QHP selection and enrollment for qualified employees and their dependents. The SHOP may use the model single employer application and model single employee application provided by HHS. The SHOP may also use an alternative application if the application is approved by HHS and meets certain requirements.
<i>Special Enrollment Periods</i>	Special enrollment periods in the SHOP are based on whether an individual becomes a newly eligible qualified employee. Enrollment periods will be available to those who become qualified employees outside of the initial or annual open enrollment period.

### Q17: What should be the SHOP policy on non-payment for coverage?

A17: Payment is due on the first of the month. If payment is not received within the 31-day grace period, the SHOP may terminate coverage. To be reinstated, the employer must pay prior premiums owed for coverage during the grace period and pay the premiums for the next month's coverage.

### Audit Findings Report

### Q18: Based on the financial and programmatic requirements, what type of information should be included in the audit findings report?

A18: The table below outlines suggested topics to include in the audit findings report, as stipulated by CMS and/or GAGAS. This list is not exhaustive, but provides examples of potential content that should be considered during the independent external audit.

Audit Report Topic	Report Content Examples
<i>Executive Summary</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Purpose of the audit.</li><li>– Scope of the audit, including the program areas and time period of the review.</li><li>– Statement that the auditor has complied with GAGAS audit standards.</li><li>– Methodology used to conduct the audit to include any quantitative and qualitative tests performed by the auditor.</li><li>– Nature of confidential or sensitive information that may have been omitted.</li><li>– General conclusions reached regarding SBM compliance with the financial and programmatic requirements, including compliance with GAAP.</li></ul></li></ul>
<i>Audit Findings</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Specific findings from both the financial and programmatic audits, including a summary of compliance or non-compliance with all requirements.</li><li>– Material weaknesses, significant deficiencies, and violations found.</li></ul></li></ul>

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Audit Report Topic	Report Content Examples
<i>Recommendations</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include recommended improvements to operating procedures to comply with programmatic and financial requirements. Recommendations should be specific, measurable, attainable, realistic, and time bound.</li></ul>
<i>Conclusion</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should confirm the firm has reviewed relevant document documentation in compliance with CMS requirements, GAGAS, and GAAP.</li></ul>
<i>Intended Corrective Action Plan</i>	<ul style="list-style-type: none"><li>• The <b>SBM</b> should provide detailed corrective action plans on how the Marketplace will address and correct any material weaknesses and significant deficiencies. Details should include rationale and expected completion timeline.</li></ul>

### Q19: What format should be used to present the audit findings to CMS?

A19: The audit findings report should be completed in Microsoft Word and provided to CMS as a PDF document. CMS has provided an example template that will comply with the formatting requirements. The example template is available.

### Q20: Is there any additional information that should be obtained from the auditor, in addition to the contents of the audit findings report?

A20: As a requirement of the State-based Marketplace Annual Reporting Tool (SMART), the SBM is required to obtain a signed statement from the auditor with the following information:, “An independent, external auditor attests that the Marketplace has demonstrated accurate accounting of all activities, receipts, and expenditures to CMS and prepared an accurate annual financial statement in accordance with GAAP.” This statement must to be uploaded as an attachment to the SMART by April 1 of each year.

### Audit Findings Report Submission and Timing

### Q21: When must the SBM submit the results of the independent external audit to CMS?

A21: Beginning in 2015, the final audit findings report must be completed by April 1 of each year.

### Q22: How should an SBM submit the results of the annual external audit to CMS?

A22: A PDF version of the audit findings report should be submitted as part of the SMART on SERVIS.

### Audit Findings Maintenance of Records

### Q23: Is there a requirement to retain records of the independent external audit?

A23: Yes. The SBM, its contractors, subcontractors, and agents, as required in the PI Reg., must retain documents reviewed and completed based on the independent external audit for 10 years. Documents include records (whether paper, electronic, or other media) and other evidence of

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accounting procedures and practices of the SBM. These records must be sufficient and appropriate to respond to any periodic auditing, inspection or investigation of the SBM's financial records or to enable CMS or its designee to appropriately evaluate the SBM's compliance with Federal requirements.

### Available Audit Resources

#### **Q24: What guidance and resources are available to SBMs to perform the independent external audit and complete the audit findings report?**

A24: The table below provides agency-specific and government-wide resources available to the SBM and the auditor as guidance in performing the independent external audit and completing the audit findings report.

Resource	Use	Location
<i>Generally Accepted Governmental Auditing Standards (GAGAS)</i>	<ul style="list-style-type: none"><li>• Framework for conducting high-quality audits with competence, integrity, objectivity, and independence.</li><li>• For use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.</li></ul>	<a href="http://www.gao.gov/yellowbook/overview">http://www.gao.gov/yellowbook/overview</a>
<i>Generally Accepted Accounting Principles (GAAP)</i>	<ul style="list-style-type: none"><li>• Authoritative source of GAAP developed by the Federal Accounting Standards Advisory Board (FASAB) for Federal entities.</li><li>• Pertains to financial statements or other financial data.</li></ul>	<a href="http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/">http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/</a>
<i>OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations).</i>	<ul style="list-style-type: none"><li>• Standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments, and nonprofit organizations expending Federal awards.</li></ul>	<a href="http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf">http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf</a>
<i>Audit Findings Report Example Template</i>	<ul style="list-style-type: none"><li>• Requirements that must be fulfilled by auditor and a sample format for submission.</li><li>• Sample format for the intended correction action plan that must be submitted to CMS by the SBM.</li></ul>	<a href="https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230">https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230</a>



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## **State-based Marketplace Independent External Audit Technical Assistance**

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### OVERVIEW

The Program Integrity Rule Part II (“PI Reg.”), 45 CFR §155.1200 (c), states, “The State [Marketplace] must engage an independent qualified auditing entity which follows generally accepted governmental auditing standards (GAGAS)<sup>1</sup> to perform an annual independent external financial and programmatic audit and must make such information available to the U.S. Department of Health and Human Services for review.”

Independent external audits are a standard practice used by government, and private and public sector organizations to ensure accountability in all financial and programmatic activities and to determine whether an organization adheres to policies, procedures, and requirements.

The Independent External Audit requirement includes both financial and programmatic components. As outlined in 45 CFR §155.1200(a)(1), the financial audit component focuses on compliance with requirements related to accurate accounting of Marketplace receipts and expenditures in accordance with generally accepted accounting principles (GAAP). Programmatic or performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against particular criteria. SBMs may use the information in this document as a reference or checklist to ensure all CMS requirements and expectations are addressed.

### SELECTION OF AN AUDIT ENTITY

Each SBM must select an independent external auditor to perform the annual independent external (financial and programmatic) audit. On June 18, 2014, the Centers for Medicare & Medicaid (CMS) issued frequently asked questions (FAQs) for SBMs (see Frequently Asked Questions about the Annual Independent External Audit of State-based Marketplaces (SBMs) that addressed the selection of an audit entity). A summary of the FAQs is provided in this section:

- The auditor chosen by the Marketplace must comply with 45 CFR §155.1200(c). CMS proposes that the SBM engage either a governmental or private independent qualified auditing entity that meets financial accounting standards, GAAP, and follows GAGAS, to perform an annual independent external financial and programmatic audit of the SBM.
- The auditor must be autonomous from the Marketplace. However, the preamble to the PI Reg. states that this requirement may be satisfied through an audit by an independent state-government entity. This entity must be selected to avoid any real or potential perception of conflict of interest, including being free from personal, external, and organizational impairments to independence, or the appearance of such impairments of independence.

### KEY CONSIDERATIONS FOR THE PROGRAMMATIC COMPONENT OF THE INDEPENDENT EXTERNAL AUDIT

#### SCOPE

In accordance with 45 CFR §155.1200, the annual financial and programmatic components of the audit must address:

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<sup>1</sup> The Government Accountability Office (GAO) outlines requirements for conducting audits in accordance with GAGAS in its publication *Government Auditing Standards* (See <http://www.gao.gov/products/GAO-12-331G>).

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- Compliance with accounting requirements specified in 45 CFR §155.1200(a)(1)
- Compliance with all subparts of 45 CFR Part 155, which are:
  - General Standards (Subpart B),
  - General functions (Subpart C),
  - Eligibility Determinations (Subpart D),
  - Enrollment Functions (Subpart E),
  - Appeals of Eligibility Determinations (Subpart F),
  - Exemptions (Subpart G),
  - SHOP (Subpart H),
  - Certification of Qualified Health Plans (Subpart K)
  - Oversight and Program Integrity Standards (Subpart M)
  - State Flexibility (Subpart N)
  - Quality Reporting Standards (Subpart O)
  - *Subparts I, J, and L are reserved for future use;*
- Processes and procedures designed to prevent improper eligibility determinations and enrollment transactions; and
- Identification of errors that resulted in incorrect eligibility determinations.

The remainder of this document will focus on the programmatic component of the independent external audit. Within 45 CFR Part 155, key subparts make up the core functions of Marketplace operations and affect a large number of consumers. Thus, the Center for Consumer Information and Insurance Oversight (CCIIO) suggests that auditors address the following key areas:

- Under Subpart C (General Functions of an Exchange), key standards include those related to:
  - Consumer Assistance programs, including Marketplace call centers, the Marketplace's Internet website, accessibility for consumers living with disabilities and/or limited English proficiency, and consumer outreach and education;
  - Navigator programs;
  - Agent and brokers;
  - Certified application counselors;
  - Notices to individuals and employers;
  - Payment of premium; and
  - Privacy and security (SBMs are obligated to adhere to MARS-E for implementing their privacy and security controls).
- Under Subpart D (Exchange Functions in the Individual Market: Eligibility Determinations for Exchange Participation and Insurance Affordability Programs), key standards include those related to:
  - Conducting eligibility determinations;
  - Verification of eligibility for enrollment in both a Qualified Health Plan (QHP) and/or insurance affordability programs;
  - Redeterminations, both during the benefit year and the annual open enrollment period;
  - Administration of payments of advanced premium tax credits (APTCs) and cost sharing reductions;
  - Coordination with Medicaid, Children's Health Insurance Program (CHIP), the Basic Health Program, and the Pre-existing Condition Insurance Program; and
  - Special processes and requirements for Indians.
- Under Subpart E (Exchange Functions in the Individual Market: Enrollment in Qualified Health Plans), key standards include those related to:
  - Streamlined applications;
  - Initial and annual open enrollment periods;



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- Application assisters;
  - Special enrollment periods; and
  - Termination of coverage.
- Under Subpart K (Certification of Qualified Health Plans), key standards include those related to:
  - Certification, recertification, and decertification process;
  - Rates and benefits;
  - Application of advanced premium tax credit (APTC) payments and cost sharing reduction;
  - Transparency in coverage;
  - Accreditation;
  - Network adequacy standards;
  - Service areas; and
  - Standalone dental plans.

## OBJECTIVES

The programmatic audit objective categories listed below are based on GAGAS guidance. Each audit objective category includes examples of actual audit objectives:

- Program Effectiveness and Results
  - Assessing the current status or condition of program operations or progress in implementing legislative requirements;
  - Analyzing the relative cost-effectiveness of a program or activity;
  - Determining whether a program produced intended results or produced results that were not consistent with the program's objectives; and
  - Assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness.
- Compliance
  - Assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved; and
  - Determining the current status of program operations in implementing legislative requirements.
- Analysis
  - Assessing the extent to which programs duplicate, overlap, or conflict with other related programs.
- Internal Controls
  - Assessing the extent to which internal control provides reasonable assurance about whether:
    - Resources, including sensitive information accessed or stored from within or outside the organization's physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;
    - Management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;
    - Integrity of information from computerized systems is maintained; and
    - Contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.

Internal controls serve as the foundation of an organization's operations. Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission,

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goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. It is suggested that internal controls be a major focus of the audit, because weaknesses in these areas can be an indication of issues in other programmatic audit categories.

These internal control audit objectives are designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance.

## AUDIT PROCEDURES

The independent external auditor can define his or her own methodology, as long as guidelines set forth in GAGAS are followed. The auditor should consider including the following, audit, or similar, procedures in his or her field work and associated test steps:

- Review of policies and procedures;
- Review of staff training materials;
- Review notices to consumers;
- Randomly select and interview Marketplace staff members to determine understanding of Marketplace requirements;
- Select a sample of eligibility files to validate proper processing;
- Select a sample of enrollment files to validate proper processing;
- Review completed QHP issuer applications for compliance with certification requirements;
- Test a sample of the SBM System Security Plan (SSP) or review the independent assessor's most recent Security Assessment Report; and
- Test data reliability.

## REPORTING

The table below outlines suggested topics to include in the audit findings report, as stipulated by CMS and/or GAGAS. This list is not exhaustive, but provides examples of content that should be considered during the independent external audit.

Audit Report Topic	Report Content Examples
<i>Executive Summary</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Purpose of the audit.</li><li>– Scope of the audit, including the program areas and time period of the review.</li><li>– Statement that the auditor has complied with GAGAS audit standards.</li><li>– Methodology used to conduct the audit to include any quantitative and qualitative tests performed by the auditor.</li><li>– The nature of confidential or sensitive information possibly omitted.</li><li>– General conclusions reached regarding SBM compliance with the financial and programmatic requirements, including compliance with GAAP.</li></ul></li></ul>
<i>Audit Findings</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include:<ul style="list-style-type: none"><li>– Specific audit findings, including a summary of compliance or non-compliance with all requirements.</li><li>– Material weaknesses, significant deficiencies, and violations found.</li></ul></li></ul>
<i>Recommendations</i>	<ul style="list-style-type: none"><li>• The <b>independent external auditor</b> should include recommended improvements to operating procedures to comply with programmatic and financial requirements. Recommendations should be specific, measurable, attainable, realistic, and time</li></ul>

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Audit Report Topic	Report Content Examples
	bound.
<i>Conclusion</i>	<ul style="list-style-type: none"><li>The <b>independent external auditor</b> should confirm the auditing entity has reviewed relevant documentation and determined that the SBM is in compliance with CMS requirements, GAGAS, and GAAP.</li></ul>
<i>Corrective Action Plan</i>	<ul style="list-style-type: none"><li>The <b>SBM</b> should provide detailed corrective action plans on how the Marketplace will address and correct any material weaknesses and significant deficiencies. Details should include rationale and expected completion timeline.</li></ul>

Each SBM and its independent external auditor may define the report contents and structure. The audit findings report should be provided to CMS as a PDF document. CMS has provided SBMs with an example report template. The template is available at:

[https://servis.cms.gov/resources/document\\_detail?doc\\_detail\\_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230](https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230)

### CORRECTIVE ACTION PLANS:

For any material weakness or significant deficiency identified in the audit, the SBM must develop a corrective action plan (CAP) and notify HHS (45 CFR §155.1200(c)(2)). A CAP is a step-by-step plan of action that is developed to resolve the identified issues. CCIIO recommends that the Marketplace include the following key components in its CAP:

- Description of the identified weakness or deficiency and of the root cause of such weakness;
- Proposed action steps resolve the weakness or deficiency;
- Timeline for implementing the action steps;
- Plan for monitoring the implementation; and
- Plan for validating that the implemented steps correct the weakness or deficiency.

Keep the following tips in mind when developing an effective CAP:

- Engage Subject Matter Experts (SMEs) in the CAP development and implementation process;
- Determine the underlying cause of the weakness or deficiency;
- Perform, when appropriate, a cost benefit analysis to determine which corrective actions are most cost effective;
- Set achievable deadlines, targets and milestones;
- Evaluate and monitor the corrective action progress to ensure compliance.

### SHARING RESULTS WITH HHS

Each Marketplace must submit the results of its annual independent audit to HHS and inform HHS of any material weakness or significant deficiencies identified in the audit. The Marketplace must also develop and inform HHS of a corrective action plan for such material weakness or significant deficiencies.

In addition, as a requirement of the State-based Marketplace Annual Reporting Tool (SMART), to be completed by April 1 of each year, the Marketplace must attest to whether the auditor completed the required annual financial and programmatic audit. The Marketplace is required to make public a summary of the results of the external audit. A PDF version of the audit findings report should be submitted as part

## Appendix B

October 29, 2014  
CCIO/SEG

of the SMART on SERVIS. CMS intends to build an electronic version of the tool to allow for ease of submission, to be available by April 1, 2015. The SMART template is currently available at:

[https://servis.cms.gov/resources/document\\_detail?doc\\_detail\\_id=ce16fd25-d04a-3375-5cbd-53bbf0d83dac](https://servis.cms.gov/resources/document_detail?doc_detail_id=ce16fd25-d04a-3375-5cbd-53bbf0d83dac)

The SBM, its contractors, subcontractors, and agents, as required in the PI Reg., must retain documents reviewed and completed based on the independent external audit for ten (10) years. Documents include records (whether paper, electronic, or other media) and other evidence of accounting procedures and practices of the SBM. These records must be sufficient and appropriate to respond to any periodic auditing, inspection or investigation of the SBM's financial records or to enable CMS or its designee to appropriately evaluate the SBM's compliance with Federal requirements.

### RESOURCES

The table below provides agency-specific and government-wide resources available to the SBM and its auditor as guidance in performing the independent external audit and completing the audit findings report.

Resource	Use	Location
<i>Generally Accepted Governmental Auditing Standards (GAGAS)</i>	<ul style="list-style-type: none"><li>• Framework for conducting high-quality audits with competence, integrity, objectivity, and independence.</li><li>• For use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.</li></ul>	<a href="http://www.gao.gov/yellowbook/overview">http://www.gao.gov/yellowbook/overview</a>
<i>Generally Accepted Accounting Principles (GAAP)</i>	<ul style="list-style-type: none"><li>• Authoritative source of GAAP developed by the Federal Accounting Standards Advisory Board (FASAB) for Federal entities.</li><li>• Pertains to financial statements or other financial data.</li></ul>	<a href="http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/">http://www.fasab.gov/accounting-standards/authoritative-source-of-gaap/</a>
<i>OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations).</i>	<ul style="list-style-type: none"><li>• Standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments, and nonprofit organizations expending Federal awards, and review of previous audits.</li></ul>	<a href="http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf">http://www.whitehouse.gov/sites/default/files/omb/assets/a133/a133_revised_2007.pdf</a>
<i>Independent External Audit FAQs</i>	<ul style="list-style-type: none"><li>• FAQs released by CCIO related to the annual independent external audit required for all approved and conditionally approved SBMs.</li><li>• These FAQs provide SBMs with increased understanding of the purpose and processes associated with the auditing and reporting process.</li></ul>	<a href="https://servis.cms.gov/resources/document_detail?doc_detail_id=a0317364-6788-c1d6-b0e8-53b30f002d47">https://servis.cms.gov/resources/document_detail?doc_detail_id=a0317364-6788-c1d6-b0e8-53b30f002d47</a>
<i>Audit Findings Report Example Template</i>	<ul style="list-style-type: none"><li>• Requirements that must be fulfilled by auditor and a sample format for submission.</li><li>• Sample format for the intended corrective action plan that must be submitted to CMS by the SBM.</li></ul>	<a href="https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230">https://servis.cms.gov/resources/document_detail?doc_detail_id=a6f0075a-9a7f-5be3-8a2c-5316253ae230</a>



## Appendix C: Cost Form

**VENDOR NAME:** \_\_\_\_\_

Proposed prices for Auditing Services Bid:

The cost amount should be supported by a schedule of hourly rates and estimated time for each level of staff assigned to the audit (Appendix D: Hours and Rates by Staff Level).

Indicate the lump sum amount for all auditing services as described. Do not include any travel or other reimbursable cost, or other additional compensation, except as included in the hourly rates for the fiscal year ending:

June 30, 2014 \$ \_\_\_\_\_ .00, or \_\_\_\_\_ dollars and no/cents.

\_\_\_\_\_  
(Authorized official of the firm)

\_\_\_\_\_  
(Date)



## Appendix D: Hours and Rates by Staff Level

### Project Staffing and Rate Form

#	Role	\$ Rate/Hr	# Hours	Total \$
1	<i>EXAMPLE: Partner</i>			-
2	<i>EXAMPLE: Director</i>			-
3	<i>EXAMPLE: Senior Manager</i>			-
4				-
5				-
6				-
7				-
8				-
9				-
10				-
11				-
12				-
13				-
14				-
15				-
...	[insert additional roles as needed]			-
				-
	Total *	-	-	-

... Roles shown are examples. Add additional roles to reflect all positions included in this response.

\* Total must equal total on Appendix C: Cost Form